The Impact of Workforce Diversity on Organizational Performance: A Review

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Abstract: The paper aims to review the literature on the effect of workforce diversity including, gender, culture/race, age, and ethnicity, on firm performance. Many empirical papers have been reviewed in which different statistical models have been applied to data of multiple types of organizations across the regions and continents to find the association between the selected variables. The review methodology is selected to survey the literature on the impact of workforce diversity on organizational performance between the years 2000 and 2021. The reviewed literature shows that workforce diversity is significantly related to organizational performance. Moreover, this paper concludes that the positive significant influence of workforce diversity on organizational performance exceeds the negative significant impact. Also, workforce diversity is productive, if it is in appropriate balance. Whereas few studies reported no significant influence of workforce diversity on organizational performance.

Keywords: Organizational performance, age, gender, culture, race, and ethnicity.

1. Introduction

Workforce diversity has become a major strategic pillar that many firms feel is required of them to advance justice and fairness in the workplace (Ng & Sears, 2012; Mor Barak, 2015). The equal opportunity principle, which ensures that diversity can be useful to boost the efficiency and effectiveness of businesses instead of losing bright people based on these differences, is largely responsible for the emergence of the workforce (Henry & Evans, 2007). Also, workforce diversity is increasing as the rising numbers of people are working in foreign countries due to the increase in immigration and globalization, and native people who have never been abroad are facing people with diverse backgrounds and cultures while working in local companies and organizations. Therefore, workforce diversity has been a complex phenomenon in the workplace (Johnston, 1991; Kundu, 2003; Adler, 1997; Henry & Evans, 2007). Workforce diversity, which is defined as the presence of more than one feature among employees, has become a hot topic for organizational academics and managers as a result of the advent of globalization (Cho, Ahraemi, & Mor Barak, 2017). In an organization, diversity refers to the presence of both commonalities and differences among its members in respect of gender, age, color, culture, disability, and physical abilities (Saxena, 2014). The ultimate dependent variable for researchers interested in virtually any area of management is organizational performance. Organizational performance is crucial to the survival and profitability of the modern corporation due to market rivalry for consumers, inputs, and capital.

Because of this, the construct now serves as the primary objective of contemporary industrial activity. The final criterion for evaluation of marketing, human resources (HR), operations management, and strategy is the contribution to organizational performance. It must be measured for managers and researchers to assess individual managerial decisions, the competitive position of firms, and the evolution and performance of firms over time (Richard, Devinney, Yip, & Johnson, 2009). Numerous studies have shown the advantages that diversity can have for an organization, including those related to role stress, organizational commitment, retention, and innovation (Gonzalez & DeNisi, 2009; Richard, Roh, & Pieper, 2013; Findler, Wind, & Mor Barak, 2007; Cho & Mor Barak, 2008; Hobman, 2003). However, Choi & Rainey, (2010) have shown that worker diversity may have detrimental effects on an organization’s overall success. The following academics have undertaken numerous research to look into how workforce diversity affects organizational performance in connection with age, gender, culture, race, and ethnicity diversity (Fredette & Bernstein, 2019; Vairavan & Zhang, 2020; Orazalin & Baydauletov, 2020; Bennouri, Chtioui, Nagati, & Nekhili, 2018; Hassan, Marimuthu, & Johl, 2017; Hong, 2015; Hogan & Huerta, 2019). However, no conclusive evidence has been provided by the existing studies. In order to study the impact of age, gender, culture, race, and ethnic diversity on company performance, this review article will undertake a thorough assessment of studies from the last two decades.
2. Literature Review

Previous studies provide a mixture of results regarding the impact of workforce diversity on organizational performance. Clarifying the effect that workplace diversity has on organizational performance requires more study to investigate the relationship between diversity and performance. The following section of the paper is the literature review. Next is the methodology, followed by results and discussion, and the last section is the conclusion and recommendation. Using a cross-sectional archival, Mahadeo, Soobaroyen, & Hanuman, (2012) proved that age diversity positively influenced the return on assets of 42 Mauritian organizations. Age diversity had a detrimental effect on corporate social performance, according to research done on 95 US S&P 500 companies (Hafsi & Turgut, 2013). Similarly, Lu, Chen, Huang, & Chien (2015) used 93 German companies and 14,260 employees and concluded that age diversity strengthens and gives rise to the effectiveness of the Human resource system, which will acquire and develop the resources to have desirable behaviors that ultimately help to enhance the performance of an organization. De Meulenaere, Boone, & Buyt, (2016) took interest in finding the impact of age diversity in Belgium for which a sample of 5892 organizational observations and panel data estimation technique has been used for this study which concluded that if the firm has a large size & has high job security, then age diversity contributes positively to the firm’s performance.

However, Backes-Gellner & Veen, (2009) conducted a study on 18,000 firms and two million employees and found that age diversity does not cause a decrease in firm productivity. Moreover, it positively impacts companies in terms of creativity and innovation that contributes to companies’ performance. Kunze, Boehm, & Bruch, (2011) utilizing the data of 128 German firms, proved that age diversity led to the negative performance of the experimented firms. In addition, Abdullah & Ku Ismail, (2013) used 100 non-financial Malaysian businesses and provided evidence that age diversity harms a company’s performance. Ali, Kulik, & Metz, (2009) used information from 422 firms that were listed on the Australian Securities Exchange between the years 2002 and 2005. According to the findings of the regression study, gender diversity and company performance were found to be positively correlated. An improvement in gender diversity might result in financial gains for a business. Ali, Kulik, & Metz, (2011) employed a longitudinal research approach to collect data from service and manufacturing organizations that are publicly listed. The findings indicated that gender diversity and company performance have a favorable linear relationship. Srinidhi, Gul, & Tsui, (2011) 2480 observations were made of US organizations, and it was discovered that there is a positive link between gender diversity and the level of profits in US organizations.

Moreover, Badal & Harter (2014) found that gender diversity has a positive impact on company performance at the business unit level using data from more than 800 business units of two distinct firms in the retail and hotel industries. However, Haslam, Ryan, Kulich, Trojanowski, & Atkins, (2010) utilized 2001-2005 panel data, archived on the UK FTSE 100 organizations, and discovered that gender diversity had a negative link with the market value of the chosen enterprises while having no association with return on assets and return on earnings. Bøhren & Strøm (2010) showed that there is a negative association between gender diversity and Tobin’s Q market return on the stock, and return on assets using data from 1200 Norwegian enterprises and panel data from 1989 to 2002. Brown (2002) using data from 121 executive directors in nonprofit organizations located in Los Angeles, proved that a higher percentage of racial diversity led to better organizational performance. Richard, McMillan, Chadwick, & Dwyer, (2003) conducted a study in 45 US states and proved that racial diversity increased the performance of the selected banks that adopted an innovation strategy. Roberson & Park, (2004) studied from 1998 to 2003 that the performance of 100 Fortune listed companies benefited from ethnic diversity. Cunningham, (2009) applied Hierarchical regression analysis to data gathered from 75 NCAA athletic departments and investigated that racial diversity positively affected the performance of the entire organization.

On the contrary, Roberson & Park, (2007) using 100 firms from Fortune’s list from 1998 to 2003, it was suggested that when ethnic minorities’ presence in leadership reaches a certain level, firm performance will suffer. Also, Choi & Rainey, (2010), diversity was found to be negatively associated with organizational performance utilizing the Central Personnel Data and the 2004 Federal Human Capital Survey. King, Dawson, West, Gilrane, Peddie, & Bastin, (2011) using information from the NHS National Staff Survey, which covered 142 hospitals in the UK, researchers discovered that ethnic diversity was found to be positively associated
with the courtesy felt by patients, which improved organizational performance. Results of an investigation on 100 non-financial Malaysian public companies revealed a significant and favorable relationship between ethnic diversity and the performance of the chosen firms (Marimuthu, 2008). However, according to a study that polled 743 workers from 131 US banks, ethnic diversity had a negative effect on the performance of the tested banks. Although it implies that by avoiding problems linked to potential status inequalities, the work experience of the members of the work unit and the performance of the unit can be improved (Leslie, 2017).

3. Methodology

The study aims to investigate the impact of workforce diversity on firm performance. The workforce diversity factors include age diversity, gender diversity, cultural diversity, race diversity, and ethnic diversity. For this purpose, a literature review methodology has been selected to survey the literature to find the association between employee diversity and organizational performance. This makes it challenging to stay on the cutting edge of research, remain current with best practices, and evaluate the body of evidence in a certain field of business research. This makes the literature review a more useful research technique than ever (Snyder, 2019). The papers relating to workforce diversity and organizational performance have been found using a variety of databases, including Google Scholar, Science Direct, Wiley Online Library, Elsevier, etc. There are many workforce-related aspects, but this review paper focuses on age, gender, culture/race, and ethnicity. In order to find the research articles relating to the topic, the keywords, including age diversity, gender diversity, cultural diversity, race diversity, ethnic diversity, and organizational performance, have been used. Moreover, the keywords for this paper are organizational performance, age, gender, culture, race, and ethnicity. The study focused mainly on articles published between 2000 and 2021.

4. Results and Discussion

Age Diversity and Organizational Performance: Age diversity is the degree of employee age difference within a group, firm or organization. Age diversity is a considerable issue in the workplace because a significant number of people ages more than 45 -50 are doing jobs in organizations (Williams & O'Reilly III, 1998; Li, Chu, & Lam, 2011; Milliken & Martins, 1996). For example, according to a study, 30% of the working class has an age of more than 50 years and this was predicted to grow by 10 percent in 20 years (Pollitt, 2006). The age workforce diversity is observed to increase all over the globe where young members have to work with older employees. Therefore, managers of the companies will need to understand and manage issues related to the age difference and enhance the company's performance (Li, Chu, & Lam, 2011). Some studies show a positive impact of age diversity and other studies show opposite results.

Positive Impact: Age diversity and age-related knowledge can increase creativity, decision-making quality, problem-solving ability, and efficiency, all of which boost employee productivity and profitability. (Pelled, 1996; Williams & O'Reilly III, 1998; Hambrick & Mason, 1984; Harrison & Klein, 2007; Klein & Harrison, 2007; Horwitz & Horwitz, 2007; Carton & Cummings, 2012). Akisimire, Masoud, Baisi, & Orobia, (2016) conducted a study on 78 manufacturing companies in Uganda and found that younger board members performed worse than older ones. Additionally, it concluded that age diversity has a good and significant impact on a company's financial performance.

An insurance company with 90 employees in Nairobi was the subject of a case study that looked at the relationship between age diversity and firm performance. It also showed that age diversity could boost the organization’s creativity and innovativeness (Karimi & Busolo, 2019). Bal & Boehm, (2019) explained that age diversity enhanced the client satisfaction of clients of a German public service organization. Moreover, Li, et al., (2021) performed a large manager-report workplace survey with 3,888 respondents from the Society for Human Resource Management and examined how age variety might lead to benefits in social and human capital, ultimately enhancing organizational success. Syakhriza, Diyanth, & Dewo, (2021) proved that age diversity had a positive role in top management meetings and interactions which led to the performance of the selected bank. Mothe & Nguyen-Thi, (2021) collected information from the Luxembourg Employer Survey (LES) and Luxembourg Longitudinal Linked Employer-Employee Data, concluding that companies with a diversity of age groups perform better. Also, (Baporikar, 2021) age diversity and the performance of state-owned businesses are strongly correlated.
Negative Impact: On the contrary, (Byrne, 1971; Tajfel, Turner, Austin, & Worchel, 1979) age-based value inequalities have a negative effect on worker productivity. The problems, like in-group favoritism and out-group stereotyping and prejudice, can hinder cooperation, cohesion, and communication between employees of different ages in the firm, which could result in confrontations (Bell, Villado, Lukasik, Belau, & Briggs, 2011). In this way, the synergies are not realized and age diversity can negatively influence the firm productivity (Pelled, 1996; Grund & Westergaard-Nielsen, 2008; Klein, Knight, Ziegert, Lim, & Saltz, 2011; Kunze, Boehm, & Bruch, 2011). Luksyte, Avery, Parker, Wang, Johnson, & Crepeau, (2022) confirmed that when team agreeableness was low the greater age diversity caused lower team performance. Joseph, (2014) conducted a survey and utilized literature and came up with the conclusion that there is a negative relationship between age diversity and performance (Szatmari, 2021).

The National Basketball Association (NBA) panel data analysis suggested that the top performers performed poorly on teams with large age diversity and well on those with low age diversity. Mothe & Nguyen-Thi, (2021) collected information from the Luxembourg Employer Survey (LES) and Luxembourg Longitudinal Linked Employer-Employee Data and came to the conclusion that companies with polarized age groups suffer from the performance benefits of age variety. Talavera, Yin, & Zhang, (2021) did a study on all the companies listed on the Shenzhen Stock Exchanges between 2005 and 2015 and discovered that age diversity had a higher detrimental effect on government companies than on privately-held organizations. Van Dijk, Van Engen, & Van Knippenberg, (2012) conducted a meta-analysis of 146 studies and explored that age diversity is negatively associated with performance. Similarly, Kunze, Boehm, & Bruch, (2013) did a study comprising 147 companies and, using a structural equation modeling, concluded that the more age diversity, the more negative age-discrimination rise leads to negative organizational performance.

Gender Diversity and Organizational Performance: The number of female employees has enhanced across the globe because of women’s rights (Ali, Kulik, & Metz, 2011). There are two ways to think about how gender diversity affects a company's performance. One takes into account how gender diversity affects how people see businesses generally in terms of their repute, image, and market worth, while the other takes into account how it affects managers and employees, which boosts productivity and profits for the business (Solakoglu & Demir, 2016). According to several studies, gender diversity promotes better-recruiting practices, worldwide relationships, and a broader understanding of the business world. However, other studies contend that it can lead to conflict in decision-making and delay the process, making it difficult for businesses to react swiftly to market shocks. This, in turn, can result in value destruction and lower firm performance (Carter, Simkins, & Simpson, 2003; Singh & Vinnicombe, 2004; Hambrick, Cho, & Chen, 1996).

Positive Impact: Using the data from 240 YMCA organizations proved that social performance enhanced as gender diversity increased while fundraising performance decreased as gender diversity increased (Siciliano 1996). Bonn, Yoshikawa, & Phan, (2004) did a study on 104 Australian industrial companies to examine the impact of gender diversity on return on assets and the market-to-book value ratio for Australian companies. Nguyen & Faff, (2007) revealed that there is a positive influence of gender diversity on market worth and return on assets of the 500 largest Australian firms utilizing 793 final observations. Gender diversity and company market value were found to be positively correlated using 68 Spanish organizations and 408 observations (Campbell & Mínguez-Vera, 2008). Also, (Mahadeo, Soobaroyen, & Hanuman, 2012) used a cross-sectional, archival study, and it was determined that gender diversity increased the return on assets for 42 Mauritian organizations. In the same way, Ali, Ng, & Kulik, (2014) selected 288 large firms listed Australian Securities Exchange and used Competing Linear and Curvilinear Predictions test in which results proved gender diversity had a positive relationship with organizational performance. In a study on 95 S&P 500 companies in the US, Hafi & Turgut, (2013) found a positive relationship between gender diversity and corporate social performance.

Perryman, Fernando, & Tripathy, (2016) showed that as gender diversity rises, the top leadership teams' performance is enhanced which leads to organizational performance. Last but not least, Orazalin & Baydauletov, (2020) found a positive correlation between social and environmental performance across 2,624 firm-year samples from listed European enterprises. Zaid, Wang, Adib, Sahyouni, & Abuhijleh, (2020) examined the association between business sustainability performance and gender diversity, finding both a positive and insignificant relationship. Del Carmen Triana, Richard, & Su, (2019) proved that senior
management gender diversity brings about change, in high-tech companies, which leads to high organizational performance. Chijoke-Mgbame, Boateng, & Mgbame, (2020) examined the positive association between gender diversity and financial success in 77 African businesses. Bennouri, Chtioui, Nagati, & Nekhili, (2018) Using the information from 394 French companies, it was determined that having female directors greatly improved the experimental companies’ return on assets and return on equity (Delgado-Piña, Rodríguez-Ruiz, Rodríguez-Duarte, & Sastre-Castillo, 2020). At various organizational levels, the productivity of a few Spanish banks is favorably and significantly correlated with gender diversity.

Negative Impact: Adams & Ferreira, (2008) applied unbalanced panel data from 1996–2003 to the data of 1939 US companies. It has been determined that gender diversity has a detrimental effect on a company's market value and return on assets. To determine the effect of gender diversity on share price and profit, researchers collected data from 432 US companies (Dobbin & Jung, 2011). It was determined that gender diversity had no impact on the profits of the chosen companies and had a negative impact on stock value. Bøhren & Staubo, (2016) used the data of all the listed Norwegian firms, which are the firms exposed to the GBI, and concluded the more the gender diversity increases, the firm's performance decreases. Bennouri, Chtioui, Nagati, & Nekhili, (2018) concluded that gender diversity proved to negatively significantly affect the market-based (Tobin's Q) performance of 394 French firms.

Insufficient Impact: In their study of 169 Japanese manufacturing companies, Bonn, Yoshikawa, & Phan, (2004) used an archival method with a one-year time lag and came to the conclusion that gender diversity did not significantly affect the performance of Japanese companies. Similar to this, Marimuthu & Kolandaismy, (2009) used OLS regressions to analyze data from 100 non-financial Malaysian companies that were publicly listed between 2000 and 2006. It has been determined that there is no substantial correlation between gender diversity and firm performance. Hassan, Marimuthu, & Johl, (2017) analyzed information on the board members and financial performance, including ROA and ROE, of 60 publicly-traded companies in Malaysia between 2009 and 2013. The study concluded that organizational performance was not significantly impacted by gender diversity.

Racial Diversity and Organizational Performance: Racial diversity means the presence of employees belonging to different races instead of one race (Blau, 1977). The evidence showed that racially heterogeneous groups, in comparison to racially homogenous groups, proved to be beneficial for decision-making activities (Maznevski & Distefano, 2000). Additionally, when creating and implementing the strategy, racially diverse groups present a larger variety of ideas and more possibilities than homogenous groups (Watson, Kumar, & Michaelson, 1993; Cox & Blake, 1991; Cox, Lobel, & McLeod, 1991). However, Roberson & Park, (2007) proposed that an increase in racial diversity caused a decline in firm performance.

Positive Impact: The different viewpoints brought about by racial diversity may inspire management teams to come up with more original and creative ideas and solutions (Miller & del Carmen Triana, 2009; Ancona & Caldwell, 1992; De Dreu & West, 2001; Bantel & Jackson, 1989). (Srikanth, Harvey, & Peterson, 2016) When good team dynamics are very relevant, racial diversity can improve organizational performance. Similarly, Richard, (2000) used a sample of 574 banks in North Carolina, California, and Kentucky, and 191 employees. The study came to the conclusion that racial diversity provided value in terms of performance, return on equity, and market performance, and positively impacted the performance of the firm in the banking industry. Smulowitz, Becerra, & Mayo, (2019) concluded that racial diversity is favorably correlated with the profitability of the experimental companies using a sample of 143 US law firms.

But that it may not have the same effect on top management. Fredette & Bernstein, (2019) drew a survey of 247 boards and explained that racial diversity improved board performance in terms of fiduciary performance, stakeholder engagement, and organizational responsiveness. The productivity of the chosen high-tech corporation was positively impacted by the racial diversity in higher and lower management (Richard, Triana, & Li, 2021). Additionally, it was shown that organizations with more ethnic diversity in top management compared to lower management were more productive than those with the opposite situation. Sharma, Moses, Borah, & Adhikary, (2020) employed a sample from the Fortune 2000 and a separate regression model to demonstrate that racial diversity improved the financial performance of the chosen companies, such as return on assets.
Negative Impact: Timmerman, (2000) collected data from 871 and 1,082 professionals in basketball and baseball teams respectively. The findings revealed that ethnic diversity has a detrimental effect on basketball performance and is unrelated to baseball team success (Pitts, 2005). Racial diversity proved to be unrelated to the performance outcomes (Lee, 2019). Another study, with a sample size of 129 to 204 US agencies, found that when minority representation increased, it had a detrimental effect on goal achievement, as opposed to a balanced minority representation, which could improve an organization’s performance. However, Vairavan & Zhang, (2020) decided to use a mediation analysis methodology to pinpoint the role that employee and R&D productivity had in the relationship between racial diversity on the board and business performance. The study's findings demonstrated that the firm’s performance was not directly impacted by the board’s racial diversity.

Ethnic Diversity and Organizational Performance: Ethnic diversity has shown mixed findings; some studies report that diversity can generate innovation, and positively influence financial performance (Herring, 2009; Simons, Pelled, & Smith, 1999; Richard O. C., 2000; Richard, Barnett, Dwyer, & Chadwick, 2004), but some studies suggest that ethnic diversity can give rise to conflict and decrease cohesion (Jehn, Northcraft, & Neale, 1999).

Positive Impact: To demonstrate that ethnically varied teams performed better on the project tasks, two American teams were chosen, consisting of 75 ethnically diverse teams and 90 ethnically non-diverse teams (Watson, Johnson, & Zgourides, 2002). Pitts & Jarry, (2007) used data from Texas public schools to get the conclusion that, while ethnic diversity among instructors consistently had a detrimental impact on organizational performance, it had little effect at the managerial level. Rasul & Rogger, (2015) surveyed more than 4000 bureaucrats and assessed the completion rate of 4700 public projects. It was concluded that a unit enhancement of ethnic diversity bureaucrats causes an increase of nine percent in the completion rate of public projects in Nigeria. In 1999, the hiring of new ethnic minority officers in the English and Welsh police forces reduced the rate of crime significantly over 10 years of recruiting (Hong, 2015). Also, ethnic diversity reduced the rate of corruption allegations by the public and gave rise to better citizen attitudes specifically in terms of fair treatment. Employing a sample of 258 higher education workers in South Africa, it was found that ethnic diversity significantly and favorably affects workers’ performance (Setati, Zhuwao, Ngirande, & Ndlovu, 2019). However, a study on four commercial banks in Naples using a multimodal regression model revealed that staff performance was unaffected by ethnic diversity (Shrestha & Parajuli, 2021).

Negative Impact: Ethnic diversity in the public school in the US state of Maryland had a negative impact on their performance (Pitts & Jarry, 2009). There was no correlation between the effectiveness of the Kisumu Law Courts in Kenya and ethnic diversity (Anyango & Florah, 2019). Another study included all the US equity REITs, using two-stage Heckman correction models, and proposed that ethnic diversity negatively impacted the operating performance of equity REITs (Hogan & Huerta, 2019). Another study with a sample of 508 respondents in federal health institutions revealed that the increase in ethnic diversity caused disunity and lack of cohesion among the employees (Njide, Onodugo, & Agbeze, 2018).

5. Conclusion and Recommendations

The review concludes that diversity in terms of age, gender, culture, race, and ethnicity significantly affects organizational performance. Additionally, it was discovered that workplace diversity had a greater benefit than negative effect on a company’s success. Although diversity has benefits and advantages in respect of innovation and performance, a balanced approach is required in terms of employee diversity because it may lead to negative impacts, instead of positive, if the diversity exceeds a certain level. However, few studies reported no significant influence of workforce diversity on organizational performance. The current study does not include other workforce diversity factors such as religion, sexual orientation and capabilities, etc. These aspects of labor diversity can be inculcated in future studies in this field. Moreover, the workforce can enhance innovation and organizational success. Therefore, firms should opt for such strategies to manage the diverse workforce. It is recommended that more studies are required on workforce diversity management and practices to effectively manage employee diversity.
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